

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-10 ISO-00 CIAE-00 DODE-00 PM-05  
H-01 INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02  
SS-15 ICA-11 AID-05 COME-00 EB-08 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 /113 W  
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R 110700Z SEP 78  
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AMEMBASSY KATHMANDU  
AMEMBASSY LONDON  
AMEMBASSY MOSCOW  
AMEMBASSY NEW DELHI  
AMEMBASSY SINGAPORE  
AMEMBASSY TOKYO  
AMEMBASSY SFOUL  
USLO PEKING  
CINCPAC HONOLULU HI  
ACONSUL HONG KONG 718

C O N F I D E N T I A L COLOMBO 4072

C O R R E C T E D C O P Y TEXT (PARA TWO)

CINCPAC FOR POLAD: DEPT ALSO FOR AID, ICA, NSC,DOD/ISA

E.O. 11652: GDS  
TAGS: PINT, CE  
SUBJECT: SRI LANKA: ONE YEAR OF THE NEW GOVERNMENT  
EXECUTIVE SUMMARY AND RECOMMENDATIONS

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. WHEN THE UNITED NATIONAL PARTY (UNP) CAME TO POWER IN  
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JULY 1977 IT INHERITED A COUNTRY ON THE VERGE OF ECONOMIC  
COLLAPSE, WITH PARLIAMENTARY DEMOCRACY SEVERELY ERODED,  
A POLITICIZED CIVIL SERVICE AND POLICE FORCE, AND A  
GOVERNMENT BANKRUPT OF MONEY, INTEGRITY AND IDEAS. HUND-  
REDS OF TAMILS WERE KILLED AND TENS OF THOUSANDS TURNED  
INTO REFUGEES BY THE POST-ELCTION AUGUST 1977 COMMUNAL  
DISORDERS, WHEN THE NEW UNP GOVERNMENT WAS STILL

REACHING FOR THE LINES OF COMMAND AND CONTROL.

2. THE CURFEW WAS JUST LIFTED, TROOPS WITH BAYONETS WERE STILL PATROLLING THE STREETS WHEN THE LEADERS OF THE UNP GOVERNMENT SHIFTED THEIR ATTENTION IN SEPTEMBER 1977 FROM COMMUNAL DISTURBANCES TO DRAWING UP THE BUDGET FOR PRESENTATION TO THE NATIONAL STATE ASSEMBLY (NSA) IN NOVEMBER AND TO PROVIDE A BASIS FOR REQUESTS TO AID DONORS. THERE SPONDED WITH A ONE YEAR STANDBY AGREEMENT AND THE PROSPECT OF LONGER TERM ASSISTANCE UNDER THE EXTENDED FUND FACILITY. NATIONAL DOYBRS AND THE IBRD PROMISED ECONOMIC ASSISTANCE OF SUCH MAGNITUDES THAT THE MAJOR DIFFICULTY NO LONGER LIES IN THE SHORTAGE OF FOREIGN EXCHANGE, BUT RATHER IN BUDGETARY RESOURCES AND THE ADMINISTRATIVE CAPACITY TO ABSORB THE ASSISTANCE THAT IS NOW AVAILABLE. MUCH OF THE PROMISED ECONOMIC ASSISTANCE, HOWEVER, IS SLOW IN COMING SINCE ACTUAL STARTS AWAIT DETAILED STUDIES STILL IN TRAIN.

3. ONE YEAR AFTER COMING TO POWER, THE UNP GOVERNMENT REMAINS IN FULL CONTROL OF THE COUNTRY; ITS FIVE SIXTHS PARLIAMENTARY PLURALITY HELD TOGETHER BY PRESIDENT JAYEWARDENE'S ADROIT AND PATIENT LEADERSHIP AND THE LOAVES AND FISHES OF OFFICE. THE POLICE AND ARMY SEEM REALIABLY IN HAND. IMPROVED POLICY PROCESSING AND MORE COMPETENT STAFF IN THE PRESIDENT'S OFFICE HAVE REDUCED THE APPARENT ARBIT-  
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RARINESS OF THE PREVIOUS GOVERNMENT AND RAISED THE LEVEL OF SOUND POLICY JUDGEMENT. WHILE HE REMAINS IN FULL CONTROL OF THE GOVERNMENT AND PARTY, THE PRESIDENT'S POSITION AS LEADER COULD ERODE OVER THE NEXT FEW YEARS IF HE CONTINUES HIS CAUTIONS APPROACH TO THE NATIONAL'S PROBLEMS.

4. ALTHOUGH PARLIAMENTARY UNITY REMAINS STRONG, COMPETITION BETWEEN MINISTERS IS APPARENT. VERY QUCIKLY, THREE MP'S BEGAN CENTENTION FOR THE PRESIDENT'S MANTLE. THIS COMPETITION IS STILL HELD WITHIN THE FAMILY, AND IS FAR MORE DISCREET IN THIS GOVERNMENT THAN IN PREVIOUS UNP AND SRI LANKA FREEDOM PARTY (SLFP) REGIMES. IT DOES NOT YET ADVERSELY AFFECT CABINET EFFICIENCY, BUT IT IMPEDES MINISTERIAL AIDES DOWN THE LINE FROM HELPING EACH OTHER OUT AS MUCH AS THEY MIGHT.

5. REMOVING THE RICE RATION FROM HALF THE POPULATION WITHOUT POLITICAL UPHEAVAL WAS A MAJOR ACCOMPLISHMENT; REDUCING OTHER SUBSIDIES AND FREEING UP THE ECONOMY IS ALREADYULATING COMMERCIAL ACTIVITY. BUT THESE MEASURES HAVE POLITICAL RISKS, SINCE THEY APPEAR TO BE

SACRIFICING IN THE SHORT RUN SUBSIDIZED CONVENTIONAL EQUITY FOR THE POOR, IN THE HOPE OF MOVING THE ECONOMY FORWARD ON A BROAD FRONT OVER A FIVE-YEAR PERIOD. THIS IS BOUND TO SHARPEN OBVIOUS DISPARITIES IN CONSUMPTION PARTICULARLY SINCE THE AFFLUENT HERE AS ELSEWHERE IN ASIA REMAIN INSENSITIVE TO THE POSSIBLE POLITICAL COST OF FLAUNTING THEIR WEALTH.

6. THUS FAR, ADVERSE PUBLIC REACTION TO THESE MEASURES HAS BEEN LESS THAN EXPECTED. THIS IS IN PART BECAUSE MRS. BANDARANAIKE'S OPPOSITION REMAINS DEMORALIZED BY ITS DEFEAT LAST YEAR AND ITS LEADERSHIP LACKS CONFIDENCE. IT APPEARS TO BE WAITING FOR THE UNP TO MAKE EGREGIOUS ERRORS OR ITS POLICIES TO FAIL. THE  
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LEFT PARTIES LACK LEGITIMATED YOUNG LEADERS WHILE THE AGING FAMILIAR LEADERS WERE DISCREDITED BY THEIR COLLABORATION WITH MRS. BANDARANAIKE'S GOVERNMENT AND DIFFER SHARPLY AMONG THEMSELVES. THEIR EFFORTS TO MOBILIZE LABOR IN PROTEST AGAINST THE UNP'S EFFORT TO DISCIPLINE POLITICAL STIKES AND REDUCE SUBSIDIES THUS FAR HAVE EVOKED LITTLE RESPONSE AMONG THE WORK FORCE.

7. THE GSL HAS ANNOUNCED THAT ITS HIGHEST PRIORITY IS DEVELOPMENT. WHILE THE USUAL CEYLONSE IMPEDIMENTS TO EFFECTIVE ECONOMIC PROGRESS-LACK OF FOREIGN EXCHANGE AND AN OPPOSITION QUICK TO MOBILIZE PROTEST AGAINST SHORT RUN CUTS IN CONSUMPTION-NO LONGER PERTAIN, THE LACK OF MANPOWER AND MANAGERIAL CAPACITY REMAINS. IN ADDITION, NECESSARY AID TRANSFER MUST AWAIT EXTENSIVE FEASIBILITY STUDIES AND CONTRACTING PROCEDURES. MAJOR DIFFICULTIES LIE WITHIN THE CUMBERSOME, LETHARGIC AND RULE-BOUND BUREAUCRACY ON WHICH THE GOVERNMENT DEPENDS TO BUILD ITS MAJOR PROJECTS. THE PRIVATE SECTOR IS GAINING SOME CONFIDENCE BUT REMAINS UNSURE OF JUST HOW MUCH SCOPE GOVERNMENT PLANNERS AND ADMINISTRATORS WILL GIVE IT. AS A RESULT GOVERNMENT CAN BLAME NO ONE BUT ITSELF IF DEVELOPMENT LAGS, THOUGH THERE IS A LONG HISTORY OF MISMANAGEMENT WHICH IS ADMITTEDLY NOT EASY TO OVERCOME. THE PEOPLE SEEM WILLING TO TOLERATE A TEMPORARY REDUCTION IN THEIR STANDARD OF LIVING, BUT WILL TURN AGAINST THE UNP IF MORE JOBS AND A BETTER LIFE ARE NOT FORTHCOMING IN THE NEAR FUTURE.

8. THE U. S. SHOULD CONTINUE ITS PRESENT POLICY OF SUPPORTING SRI LANKA'S DEVELOPMENT EFFORTS. WE SHOULD BE HELPFUL, PARTICULARLY IN AGRICULTURAL IMPROVEMENTS  
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AND WITH THE MAHAWELI PROJECT,WITHOUT GETTING TOO  
DEEPLY INVOLVED IN GSL POLICY FORMULATION. WE SHOULD LET THE  
WORLD BANK AND IMF REMAIN OUT FRONT. WE SHOULD ASSIST BUT  
NOT ENCOURAGE POTENTIAL U. S. INVESTORS. WE SHOULD NOT  
OVER-REACT IF SOME INDIVIDUAL LIBERTIES ARE CURTAAILED A'  
LA SINGAPORE. (END: EXECUTIVE SUMMARY AND RECOMMENDATION).

9. FOREGOING IS EXCERPT FROM EMBASSY'S FULL  
REPORT ON THIS SUBJECT, SENT ADDRESSEES AS  
COLOMBO A-87, SEPTEMBER 13, 1978.  
WRIGGINS

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## Message Attributes

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**Channel Indicators:** n/a  
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**Draft Date:** 11 sep 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
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**Disposition Case Number:** n/a  
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